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UNCLAS SECTION 01 OF 02 HO CHI MINH CITY 000605

SIPDIS

STATE FOR EAP/BCLTV AND EB/TPP/ABT/BTT BOYNTON
STATE ALSO PASS TO USTR BRYAN/SPOONER/MILLER/CLATANOFF
USDOC FOR 6500 AND 4430/MAC/AP/OPB/VLC/HPPHO
USDOC ALSO PASS OTEXA LEONARD/FOOTE/MARTELLO
CUSTOMS FOR RICHARD CRICHTON
LABOR FOR ANA VALDES

1E. O. 12958: N/A
TAGS: [ECON](#) [ETRD](#) [KTEX](#) [VM](#) [SOE](#)
SUBJECT: QUANG NAM GARMENT FACTORY: TRYING TO MAKE IT IN THE
MIDDLE OF NOWHERE

Summary

1. Quang Nam Province is the home of the Quang Nam Garment Company, a small state-owned enterprise with about 800 employees and revenues of VND 20 billion per year (about US\$1.3 million). On a brief visit to the company by DPO and Econoff, they saw a clean, well-lit, well-ventilated factory producing its last U.S. order for the year. The visit provides a glimpse of how a small factory far from Vietnam's commercial and industrial centers is dealing with U.S. quotas, competing with larger firms in Hanoi and Ho Chi Minh City areas, and handling social accountability issues and economic reforms. Interestingly, the company director was enthusiastic about the possibility of equitization, or partial privatization in this case.

Quang Nam - One of the Poorest Provinces

2. Located south of Danang along the central coast of Vietnam, Quang Nam is one of the poorest provinces in the South, with an average per capita income of US\$230 per year. The province does draw relatively large numbers of foreign tourists to its two UNESCO World Heritage Sites, including the picturesque town of Hoi An and the ancient Cham ruins at My Son. It is also the province with the highest number of "Mothers of Revolutionary Heroes," that is, mothers who lost children fighting in the war - against us. Outside of Hoi An, the province is relatively poor and has little industry. Quang Nam is working actively to change this, with the development of the Chu Lai Open Economic Zone at the southern edge of the province (more to come Septel).

Company Does Assembly Only and is on Its Last U.S. Order

3. Unlike most textile/garment firms in the Ho Chi Minh City area, the Quang Nam Garment Company is a state-owned enterprise (SOE). It is one of three subsidiaries of the Hoa Tho Textile Company based in Danang and is part of Vinatex, the huge textile conglomerate controlled by the Ministry of Industry. Quang Nam Garment Company Director, Mr. Do Ngoc Phuong, showed us around the facility. He noted that the factory simply filled orders provided by the mother company in Danang and did not have a separate sales or marketing function. Its traditional markets were Japan, Korea, and Taiwan. Marubeni, a well-known Japanese trading firm, is a particularly large customer. The company cuts and assembles garments using fabric and other accessories coming directly from the buyer. The only components sometimes sourced locally are thread and packaging materials. Quang Nam Garment Company has about 800 employees and generates revenues of about 20 billion VND (about US\$1.3 million), which amounts to only about US\$1600 per worker per year.

4. Director Phuong stated that after the BTA went into force the company began to receive U.S. orders and had gradually shipped more and more to the American market. So far this year the company had shipped 250,000 pieces to the U.S., he said. But due to U.S. quotas, the factory was finishing up what he expected would be his last U.S. order for some time - a shipment of Dickies-brand trousers. Mr. Phuong stated that the parent company had told him not to expect any additional quota or U.S. orders this year. (Note: It is not clear whether the parent company does not expect to be allocated additional quota or if it just plans to allocate what it receives to other subsidiaries. End note.) Mr. Phuong said his company would once again focus on its traditional export markets, even though these orders were less profitable.

Low Pay, Reasonable Conditions Equals Good Jobs

5. Quang Nam Garment Company is located right up against busy National Highway 1A. Our meeting with the director was in a shabby, drab administration building. The factory itself, however, was surprisingly clean, well lit, well ventilated, and relatively cool on an extremely hot afternoon. Some parts of the factory were air-conditioned. For the first time Econoff saw Vietnamese men working at the sewing machines. Typically in factories near Ho Chi Minh only women fill these jobs. Salaries in Quang Nam are low, however. Director Phuong reported that workers earn VND600,000 per month (less than US\$40), which he believes is about 70% of the going rate in Ho Chi Minh City. Mr.

Phuong noted, however, there was low turnover rate, because in Quang Nam, these were considered good jobs with competitive salaries. Many of the factory workers in the Ho Chi Minh City area come from places like Quang Nam. But according to Mr. Phuong, these workers -- even with lower pay -- would much rather stay close to home where the cost of living is cheaper and surroundings more familiar.

16. When asked about social accountability issues, Director Phuong said the parent company handled any necessary certifications, although he only knew of the firm obtaining an ISO certification, not about meeting any social accountability standards. He went on to say, however, that the company had made a number of changes to improve worker conditions for the U.S. market. He particularly noted improved lighting, ventilation, air-conditioning and "modernization of some of the production."

17. Quang Nam Garment Company's low wages and stable workforce give it a small competitive edge over firms in more expensive Ho Chi Minh City. But Mr. Phuong also noted his central Vietnam location makes it more difficult for him to reach customers and that shipping is slower and more expensive from there, than from HCMC. As other firms have also told us in central Vietnam, it is easier and faster for a company to truck its goods down to Saigon Port, rather than use port facilities in Danang, where ships call much less frequently.

Plans to Equitize

18. When asked about development or expansion plans, Director Phuong stated the company was planning to be equitized by 2005, a move he strongly supported. He said he believed it would make management and workers feel more personally responsible for the company and its success, and would improve its financial position. Equitization would only go so far, however. When asked if he was worried about his company going it alone when it had yet to build up the most basic sales and marketing functions, he stated that even after equitization the parent company would retain a 50% interest in the company and would continue to perform those functions.

Comment

19. In a poor, relatively remote provincial location, a steady job paying less than US\$40 per month is considered good. Unfortunately, that appears to be this company's only competitive edge. Quang Nam Garment Company, even with its successes, exemplifies the problem of many of Vietnam's garment firms. They are basically assembly operations capturing only a small portion of the value of the final garment. Although Director Phuong realizes he could increase his revenues dramatically if his company could do more than just assembly, he does not appear to have any plan or means to do so. Nonetheless, this little textile firm in the center of Vietnam is able to compete in the global market successfully and be an important employer in an economically depressed area of the country. And while the quota on U.S. goods is limiting his ability to get higher profit orders, Mr. Phuong seems confident that he can find buyers in his traditional Asian markets.

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